



Connecting Policies with Ethics

Best practices for creating the right code
and integrating it into your
compliance program.

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Introduction

Ultimately, your company's values are only as strong as those of your employees. That's why every employee needs to internalize company values, making them part of every action and decision. It's a lot to ask, and you want to help employees understand what's expected of them.

Policies are one way to protect organizational values—and reduce risks—by laying out clear rules for employees to follow. But wouldn't it be better if everyone in your company understood right and wrong and could stop themselves from making bad decisions, without having to check a company policy?

A code of ethics can help foster a culture of values-based decision making. Also known as a code of conduct, the code of ethics plays an important role in compliance efforts by bridging the gap between values and policies—and by extension, between policies and actual employee behavior.

You may already have a mission statement and values that define what you believe and what you hope to achieve. And existing policies outline rules for specific situations, such as using company resources or making hiring decisions. But a code of ethics provides general behavioral guidelines and a framework for making good decisions that uphold your company values in any circumstance.

Having a code was deemed important enough to be included among the required disclosures of the Sarbanes-Oxley Act in 2002. With or without this requirement, though, every company—large or small, public or private—should define, publish and promote its own ethics. For starters, a formal code of ethics can make it easier to introduce new employees to your company culture. Promoting a code to the public also appeals to customers who increasingly want to know what companies stand for.

Finally, a well-defined code of ethics plays an integral role in policy development, training programs, and other employee engagement efforts that encourage good behavior and can reduce the risk of incidents. So if you haven't written your code yet—or if you have a code and need to update it—here are some guidelines for defining your organizational ethics, writing an effective code and integrating it into your broader compliance efforts.

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Building off your mission and values

In some cases, the rules for basic ethical behavior are dictated by laws or regulations. But what if you want to encourage employees to live up to even higher standards? To specify higher standards in your code of ethics, you first need to be clear about where your company is going and what you believe. You'll find the answers to those questions by reviewing your mission or vision statement, and your company values. If you don't have a mission statement, now is the time to create one.

First, look for elements of your mission statement that will underpin your code of ethics, such as:

Why are you in business?

It's not just about making money, but defining the impact you want to have on your industry and community, or describing the problem that you intend to solve for customers.

What makes you different?

If you stake your business on a differentiator like customer service, product innovation or being the price leader, your code of ethics can focus on encouraging behavior that preserves that advantage.

How do you treat people?

Having clear goals for dealing with customers, employees, shareholders and other individuals can help define standards for behavior.

What else is important to the company?

Your mission may reference non-business goals, such as social responsibility or environmental sustainability, which can influence your approach to ethical questions.

Next, review your company's values to ensure that your code of ethics is consistent with

those values—and can show employees how to uphold them. Consider all the ways that values can influence ethical behavior. For example:

Accountability.

As a value, this can cover each employee's duty to take responsibility for his or her actions, as well as your company's overall commitment to meet customer expectations for service or product quality.

Citizenship.

This can refer to upholding basic laws and regulations, as well pursuing broader social initiatives, such as health and wellness, or environmental goals.

Integrity.

This applies to every personal interaction, including how employees engage with coworkers, suppliers, customers, local governments and regulators.

Fairness.

This can cover everything from your company's commitment to non-discriminatory hiring practices to prohibitions against accepting gifts or payments from suppliers looking for preferential treatment.

To establish high standards in your code of ethics, you first need to be clear about where your company is going and what you believe.



Defining key ethical issues

A code of ethics is both an internal and an external document. It has to tell employees how to behave, while also showing the public how your company intends to uphold its values. Keeping this dual role in mind will help you determine your ethical responsibilities.

Follow these guidelines to define the key issues and behaviors that your code of ethics should address:

Consider all stakeholders.

Your code should cover decisions or actions that affect anyone who interacts with your business. This includes employees, customers, suppliers, shareholders, local communities—maybe even the entire planet if your company is committed to sustainable business practices. For example:

- Ethical issues related to customer engagement can include product quality and customer service standards.
- If you have shareholders, you need to consider actions related to financial reporting and stock trading by company insiders.
- Interactions with suppliers might be affected by your company's social responsibility values, such as a commitment to human rights and fair wages.

Your code should cover decisions or actions that affect anyone who interacts with your business.

Ask employees for input.

Employees have an important role in maintaining your company culture, so it's important to incorporate their insights into your code of ethics. Ask them what's most important to them. They might be most concerned with how the company treats customers, or want to protect a workplace environment that values independence and creativity.

Based on those concerns, ask them to describe what constitutes ethical or unethical behavior:

- How should the company treat its customers?
- What responsibilities must employees accept if they want to maintain the freedom to make decisions without management oversight?

It's also important to ask whether ethical standards are achievable based on the day-to-day realities of the job. For example, if you want your code of ethics to prohibit making any kind of gift or payment to local officials in overseas markets, ask the employees who manage those relationships how that prohibition would affect their jobs.

Inventory risks and regulations.

You also must identify the risks that your code must address. You can reverse-engineer your code of ethics to some degree simply by reviewing the laws and regulations that govern your business. For example, the mandates found in anti-discrimination laws, anti-corruption laws and other regulations can provide a baseline for what constitutes ethical behavior in many specific circumstances.

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There may be additional issues to include because of the nature of your business:

- If you run a family business you might need to address nepotism and other personal relationships.
- If you have employees spread all over the world, you might want to address travel and customer entertainment.

You can assess other potential risks by analyzing past incidents and investigations. Seeing where your employees have had ethical trouble in the past can help you write a code of ethics that can prevent similar behavior in the future.



Writing an easy-to-follow code

There's no "one size fits all" template for a code of ethics. How you choose to write it and the details you include will depend on your company's unique needs and may be dictated by regulations, such as Sarbanes-Oxley.

But there are several places to find templates and sample codes that you can review and adapt to your own needs. For example:

The Institute of Business Ethics provides two models for writing a code at <http://www.ibe.org.uk/index.asp?upid=61&msid=11>

The Ethics Resource Center offers a list of provisions commonly found in a code at <http://ethics.org/resource/common-ethic-code-provisions>

The Center for the Study of Ethics in Professions at the Illinois Institute of Technology maintains a database of sample codes from a wide variety of organizations at <http://ethics.iit.edu/ecodes/>

Whatever template you use, focus on creating a code that is easy to follow and understand, clearly states your ethical positions and inspires your employees. Here are some important writing tips:

Connect with your values.

Make a direct connection between the code and your company's mission statement and core values. For example, you can list the company's values in the introduction of the document, and then explain how the code will help all employees live up to those commitments.

Use simple language.

Write in words people understand—not legalese or regulatory boilerplate. For example, say, "We do not make or accept bribes," instead of, "The Foreign Corrupt Practices Act of 1977 makes it illegal to give or to offer anything of value to non-U.S. government officials to improperly influence the performance of the officials' duties. Failure to comply with the FCPA is not tolerated." Remember, you can provide details about specific regulatory requirements in your company policies.

Write a code in language that is that is easy to understand, clearly states your ethical positions, and inspires your employees.

Stay positive.

Choose positive language that conveys the benefits of ethical behavior. For example, rather than simply writing, "It is against the law to discriminate against any employee on the basis of race, religion, ethnicity, gender, age...", you can frame diversity as an important business advantage: "We believe a

diverse workforce is essential to a thriving, creative business. We strive to attract employees from a wide range of backgrounds and will not discriminate on the basis of race, religion, ethnicity, gender, age...”

Include a decision tree.

Help employees assess whether an action they’re about to take is ethical by including a decision tree. A decision tree walks employees through a series of questions that must be answered “yes” for the action to be ethically sound. For example:

Is it legal?

Does it comply with company policy?

Does it reflect our ethics and values?

Could it adversely affect someone else?

Is it something you would feel comfortable seeing published in a newspaper?



Making the code real

Once you’ve written a code of ethics, develop a plan to help your employees understand what’s expected of them and internalize those standards. You want to make it easy for them to translate your code into behavior and practices they will use every day.

Provide employee ethics training.

Start by giving every employee basic ethics training that puts the company’s code in a real-world context. One of the most effective training techniques is to present employees with a business scenario that poses an ethical dilemma, and then ask how they would respond. For example, you might ask employees how to respond to situations like these:

- A vendor approaches you and says he can “do you a favor” if you overlook a discrepancy you discovered in their most recent invoice.

- A new employee who once worked for one of our competitors says he knows all about their pricing structure and offers to provide information to help you bid against that company for a major contract.
- A female employee alleges she has been harassed by her supervisor. However, the supervisor is someone you trust and have known for many years.

Using an integrated governance, risk and compliance (GRC) platform that manages values, policies, training and compliance can ensure everyone in your company receives the proper ethics training. For example, Convercent users can distribute their code of ethics to every employee, along with a link to the proper ethics training course. That way, users can track which employees have received the code and completed their training. They also can monitor when employees are due for retraining.

Reinforce ethical behavior.

Training is just the first step, though. Companies with the strongest ethical cultures are often ones that regularly highlight those ethics and reinforce their importance to their businesses. Look for ways to remind employees to think about ethics throughout the course of the year. For example, if you publish an employee newsletter or company blog, you could create a monthly “ethics quiz” to reinforce the basic training employees have received.

You also can encourage dialog about ethics by providing a simple way for employees to ask questions about your code, or about ethical behavior in general. For example, Convercent’s platform enables users to set up a communication channel linked to the company’s code of ethics, so employees can submit questions and comments about the information in that document. You also

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could designate someone at the company to field ethics-related questions through a dedicated email address. Whatever method you use, your goal is to get people talking about ethics in a positive, proactive way—rather than waiting for an ethical lapse to force you to have the conversation.

Measuring Ethical Performance

Creating an ideal code of ethics is not enough to build an ideal or even ethical business—you have to live up to your own ethical standards. So it's essential to regularly assess how well your company is performing against its code. Doing so will help identify potential problem areas before they lead to unethical behavior. Measuring ethical performance focuses attention and sends direct signals to everyone about what you actually value. A few ways to go about measurement:

Set Ethics-Related Goals.

One way to measure your ethical performance is to create goals related to your company's ethics and values. For example, if your code of ethics includes high standards for customer service, you might set goals around reducing the number of customer complaints each year. If you express a commitment to fair labor practices and human rights, you might work with an outside organization, such as the Business Social Compliance Initiative, to monitor and measure your suppliers' compliance with fair labor standards.

Apply Ethics in Hiring.

Use ethics criteria in reviewing current employees and evaluating new hires. You also can include ethics criteria in performance reviews and hiring. For example, if you use 360-degree feedback in your

reviews, include qualitative questions about ethics and values, such as, "Have you seen Employee X living up to our code of ethics? If so, describe how and when." For managers' reviews, ask employees questions about how often their supervisors discuss the company's ethical standards, or how they help encourage employees to make ethical decisions.

Look Beyond the Surface.

When incidents happen, make sure you take a step back to see whether there is a bigger, systemic problem that you need to address. By aggregating data about incidents, investigations and subsequent disciplinary actions, you can look for patterns of unethical behavior. If you notice a cluster of issues related to, say, employee misuse of company resources, you might need to amend your code of ethics to be more clear about standards of behavior or conduct more training around ethical decision making.

Measuring ethical performance focuses attention and sends direct signals to everyone about what you actually value.

Using an integrated GRC platform like Convercent can simplify this process. For example, Convercent's reporting features enable users to generate reports on the number, type and severity of incidents, and to break down investigations by issue, such as fraud or harassment. Users also can measure the volume of incidents over time to identify times when the company's ethical behavior may be slipping—or improving.

CONVERCENT'S EIGHT-POINT PLAN FOR A GREAT CODE OF ETHICS

While there's no cut-and-paste solution to writing a code of ethics, you can follow this process to produce great results that reflect your company's unique circumstances:

Step 1: Review your mission, vision and values statements for key business objectives and ethical expectations.

Step 2: Review sample codes of ethics from businesses of a similar type and size in your industry.

Step 3: Examine existing policies, past practices, previous ethical dilemmas and any precedents the organization has set.

Step 4: Address unique business issues, such as nepotism for a family business, or travel and customer entertainment for a global business.

Step 5: Get input from all stakeholders and process owners that will be affected by the code.

Step 6: Draft a code, share it widely with employees, solicit feedback and make changes before sending it for executive and legal review. When final, a code should be easy to read and understand.

Step 7: Assign oversight, administration and enforcement responsibility to a single individual who has the time and authority to receive and manage complaints, investigate alleged violations, and provide guidance on discipline or corrective action when necessary.

Step 8: Roll out the code to everyone in the organization by holding events that let employees ask questions and review expectations. Then provide a way for employees to safely and anonymously report potential issues or possible violations.

Conclusion

The payoff for time spent on a code of ethics can be significant. For starters, having a code can help your company avoid hefty fines for employee wrongdoing: Federal Sentencing Guidelines offer to reduce fines or other punishments for companies that have a comprehensive compliance and ethics program in place.

More importantly, though, is the bridge a code provides between values and policies. No one can anticipate every ethical slip or bad decision that employees might make. So instead of trying to write policies and rules against any potential problem, you can write a code of ethics that helps employees adopt better behavior and make better decisions on their own. That action can shift your overall compliance program from one that's based on rules, restrictions and punishments to one that's based on the values and ethics that help your employees—and your business—thrive.



Convercent is turning compliance on its head. Through the industry's first intelligent dashboard, we give you multi-dimensional insight into your company's health. Our integrated compliance and analytics solution builds healthy organizations by continuously assessing and managing company policies, tracking employee education and streamlining case management—all while keeping a solid emphasis on your company values. The cloud-based solution is fast to set up, easy to use and accessible from any device or location. It's an interactive approach to turning insight into improvement and awareness into alignment. Changing your view of compliance can transform your organization.

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